Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
48.86 USD	39.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Essential Utilities Combines Growing Water Business With Stable Gas Utility

Travis Miller
Strategist
Morningstar

Business Strategy and Outlook 11 Jun 2021

For more than 50 years, Essential Utilities--formerly Aqua America--was one of the few pure-play water utilities in the United States. But its $4.3 billion acquisition of Peoples Gas in March 2020 made the company nearly 50% larger and diversified its earnings mix.

The acquisition hasn't changed Essential's core investment proposition. Essential's gas and water utility earnings remain mostly rate regulated, and we expect management to run it like most other regulated U.S. utilities, prioritizing infrastructure investment growth and a robust dividend. Our outlook for 8% earnings growth during the next five years is a little higher than our growth outlook for most other U.S. utilities.

Although core retail water use has been falling steadily as a result of efficiency savings for several decades, Essential has been able to grow earnings and the dividend for many years. Like many utilities, Essential is replacing and upgrading infrastructure that is decades old across its system, resulting in organic rate base growth. We also expect Essential to grow by acquiring small, typically municipal-owned water systems. In the U.S., 85% of the population is served by a municipal water utility, offering a long runway of acquisition growth opportunities.

Similarly, we expect little natural gas usage growth at Peoples Gas, which had been owned by a private equity group. But the gas business still should produce steady earnings growth as Essential replaces and upgrades the system infrastructure.

Fair market value laws in several states support Essential's water business acquisition strategy. These laws require Essential to pay municipalities at least the assessed value of the system it acquires and allow Essential to add these assets to rate base at the assessed value rather than historical cost. The municipalities benefit by ensuring they get fair prices, and Essential shareholders benefit by ensuring the company doesn't overpay for growth. In many cases, these deals are immediately value-accretive. Recent FMV legislation in Kentucky and West Virginia opens acquisition opportunities near areas Essential already serves.

Important Disclosure

Research as of 11 Jun 2021
Estimates as of 11 Jun 2021
Pricing data through 11 Jun 2021 00:00
Rating updated as of 11 Jun 2021 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 02 Jun 2021 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Vital Statistics

Market Cap (USD Mil)	12,002
52-Week High (USD)	48.93
52-Week Low (USD)	38.28
52-Week Total Return %	14.5
YTD Total Return %	4.4
Last Fiscal Year End	31 Dec 2020
5-Yr Forward Revenue CAGR %	11.2
5-Yr Forward EPS CAGR %	8.6
Price/Fair Value	1.25

Valuation Summary and Forecasts

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Price/Earnings	31.9	29.9	*28.9*	*27.3*
EV/EBITDA	23.0	24.7	*20.4*	*17.4*
EV/EBIT	33.6	39.3	*30.5*	*25.3*
Free Cash Flow Yield %	-2.0	-2.8	*-6.2*	*-2.2*
Dividend Yield %	—	—	*2.1*	*2.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Revenue	890	1,463	*1,800*	*1,962*
Revenue YoY %	6.2	64.4	*23.0*	*9.0*
EBIT	340	435	*581*	*702*
EBIT YoY %	5.3	27.8	*33.7*	*20.8*
Net Income, Adjusted	317	402	*435*	*469*
Net Income YoY %	65.3	26.8	*8.1*	*7.9*
Diluted EPS	1.47	1.58	*1.69*	*1.79*
Diluted EPS YoY %	36.6	7.5	*7.0*	*6.1*
Free Cash Flow	-73	-143	*-525*	*-13*
Free Cash Flow YoY %	-345.3	97.3	*266.0*	*-97.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Essential Utilities is a Pennsylvania-based holding company for U.S. water, wastewater, and natural gas distribution utilities. The company's water business serves 3 million people in eight states. Nearly three fourths of its water earnings come from Pennsylvania, primarily suburban Philadelphia. It also has a small market-based water business that provides water and water services to third parties, notably natural gas producers. Its $4.3 billion Peoples Gas acquisition that closed in March 2020 adds 750,000 gas distribution customers in Pennsylvania, West Virginia, and Kentucky.

Essential Utilities Inc WTRG (NYSE) | ★★

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Morningstar Analysis

Initiating Coverage of Essential Utilities With Narrow Moat, $39 Fair Value 11 Jun 2021

We are initiating coverage of Essential Utilities with a $39 per share fair value estimate, narrow moat rating, and stable moat trend.

We consider the stock 23% overvalued based on the $48 stock price as of June 11. The stock trades at 28 times our 2021 earnings estimate, a 30% premium to the current median U.S. utilities P/E. Although we think Essential deserves a premium valuation relative to electric and gas utilities because of its higher returns on capital and growth potential in the water business, we think investors should wait for a pullback. Its closest peer, American Water Works, trades at a 30% premium to our fair value estimate and 38 P/E.

Essential, formerly Aqua America, was one of the few pure-play U.S. water distribution and wastewater utilities before acquiring Pennsylvania-based Peoples Gas in 2020. The company now gets two thirds of its earnings from its water business and one third of earnings from gas distribution.

The $4.3 billion Peoples Gas acquisition doesn't change Essential's core regulated utility business model, but we think it was a setback for investors. Essential paid more than double book value for the business, which has good near-term growth potential but long-term uncertainty as the U.S. moves away from fossil fuels. We think that capital would have been better spent growing its water businesses.

Our five-year, 8% annual earnings growth outlook tops most other U.S. utilities' outlooks. We think the water business has long, attractive runway of growth mostly through acquisitions of municipal utilities. Fair market value laws in some states allow Essential to mark up book value on its water acquisitions, eliminating the risk of overpaying.

We expect Essential to continue its impressive dividend growth track record. The company has paid a dividend every year since 1945 and has raised the dividend by 5% or more every year for the last 25 years. We consider management's 65% payout target more attractive than its peers.

Fair Value & Profit Drivers 11 Jun 2021

We are initiating coverage of Essential Utilities with a $39 per share fair value estimate.

We expect earnings to grow 8% annually during the next four years, which is above management's 5%-7% annual earnings growth target. Our growth rate is based on $1 billion of annual capital investment and $150 million of water utility acquisitions per year, on average. Our growth rate is higher than management's target range primarily due to our assumption that Essential will find more acquisition opportunities than it has in the past. We think the spread of fair market value legislation and increasing need for system investments will lead more municipal utilities to consider selling their systems.

Apart from acquisitions, the combination of surcharges and base rate increases support our earnings growth outlook. This includes favorable outcomes for likely base rate reviews in Pennsylvania, its largest service territory, in 2022-23.

In our discounted cash flow valuation, we use a 6.0% cost of capital based on a 7.5% cost of equity. This is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio, reflecting Essential's lesser sensitivity to the economic cycle and lower degree of operating leverage. We incorporate $5 per share of incremental value to better recognize the benefits accruing to shareholders from Essential having issued debt at coupon rates far below our long-term cost of debt assumption.

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Price/Fair Value Morningstar data as of Jun 11, 2021

Scenario Analysis

In our bear case, a 20% annual reduction in our 2021-24 capital expenditure forecast would lower our fair value estimate by $2 per share. A 50-basis-point cut in our long-term allowed regulatory return on equity assumption would reduce our fair value an additional $3 per share.

In our bull case, a 20% increase in our capital spending assumption would raise our fair value estimate by $2 per share, assuming full regulatory support at current allowed returns. A 50 basis-point increase in our long-term allowed regulatory return on equity assumption would add another $3 per share.

A 50-basis-point change in our cost of equity assumption would lead to a $2 per share change in our fair value estimate.

Economic Moat

We have greater than 50% confidence that Essential can generate economic profits on a consolidated basis for at least the next 10 years based on its efficient scale competitive advantage for its water, wastewater, and natural gas distribution businesses. Essential Utilities' consolidated returns are the foundation for our narrow moat rating.

We have strong confidence that Essential's returns on invested capital will remain at a healthy spread over its weighted average cost of capital for the foreseeable future, leading us to assign the company a narrow moat rating. Essential owns a difficult-to-replicate network of water, wastewater, and natural gas distribution infrastructure that provides essential energy sources to customers. In exchange for a service territory monopoly, state and federal regulators set rates for Essential's water distribution, wastewater, and natural gas distribution utilities at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utilities should, in the long run, allow Essential to earn a consistent spread over its cost of capital. Rate-setting mechanisms in the states that Essential serves are mostly constructive, leading to ROICs modestly above its WACC.

In the water distribution and wastewater businesses, Essential enjoys fair market value legislation in seven of the eight states where it has operations. This allows Essential to ensure its growth acquisitions are value-accretive by allowing it to adjust its regulated earning asset base to reflect the deal value based on a third-party valuation. This effectively eliminates the drag on returns created by goodwill and the risk of cost overruns for organic growth investment. Essential made 57 water system acquisitions between 2015 and 2019, and goodwill represented only 1% of Essential's net asset base. Thus, Essential's earned ROICs tend to track very closely its regulatory allowed ROICs, the foundation of an economic moat for regulated utilities.

As with all regulated utilities, we think regulatory caps on revenue and returns preclude Essential from establishing a wide economic moat.

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Essential derives about 1% of earnings from businesses that have few competitive advantages, particularly its water and wastewater services. Essential exited some of these businesses in 2017, and we expect these businesses' share of earnings will continue to shrink as management focuses on growth at the regulated distribution utilities.

Moat Trend

We think Essential's moat trend is stable. We do not expect the regulatory rate structures that support earnings and ROICs for Essential's water or gas utilities to change substantially, given state laws that demonstrate the political and regulatory support for maintaining Essential's financial health, stability, and investments. We believe regulators will rely on state legislation and constructive rate plans to uphold the implicit contract with capital providers that allows Essential to earn above its cost of capital on balance, in the long run. Fair market value legislation ensures Essential's growth-by-acquisition strategy is value-accretive for shareholders.

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Bulls Say/Bears Say

Bulls Say

- Constructive regulation allows Essential to raise rates through surcharges or rate cases to reduce regulatory lag and enhance cash flow available to pay the dividend and invest in growth projects.
- Fair market valuation state laws allow Essential to make municipal water utility acquisitions immediately value-accretive for shareholders.
- Essential has raised its dividend 30 times in the last 29 years, including 29 consecutive increases of more than 5%.

Bears Say

- Essential Utilities paid a peak market price for Peoples Gas, which will probably drag on consolidated returns for many years.
- Essential's capital investment plan likely means annual rate increases for most of its customers, which could cause regulatory pushback that would slow earnings growth.
- Rising interest rates could raise financing costs for Essential to fund its investments and make its dividend yield less attractive for income investors.

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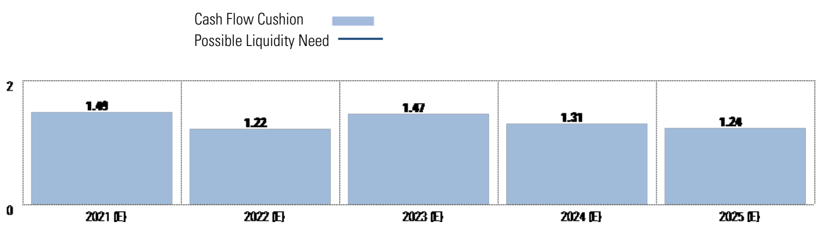
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2021(E)	2022(E)	2023(E)	2024(E)	2025(E)
Cash and Equivalents (beginning of period)	5	277	339	351	425
Adjusted Available Cash Flow	893	1,528	638	1,171	716
Total Cash Available before Debt Service	898	1,805	977	1,523	1,141
Principal Payments	-406	-1,257	-425	-902	-653
Interest Payments	-197	-220	-242	-261	-266
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-603	-1,477	-667	-1,163	-919

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	5	0.1
Sum of 5-Year Adjusted Free Cash Flow	4,946	102.4
Sum of Cash and 5-Year Cash Generation	4,951	102.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	4,951	102.5
Sum of 5-Year Cash Commitments	-4,828	—

Financial Strength

Essential maintains a capital structure in line with its regulatory allowed capital structure for ratemaking purposes and leverage metrics in line with high investment-grade credit ratings. We don't expect that to change.We expect Essential to issue new debt to fund growth investments and acquisitions in the coming years. We don't expect any material new equity needs once it completes its $300 million equity forward sale in August. With constructive regulation, we expect Essential will be able to use its cash flow to fund most of its equity investment needs during the next five years.Essential has paid an annual dividend since 1945 and increased it at least 5% for each of the last 25 years. We think Essential will be able to continue growing the dividend at this rate or higher while staying below management's 65% maximum payout ratio threshold, which is in line with Essential's peer utilities.

Risk & Uncertainty

The biggest uncertainty for Essential is rate regulation in the states it serves. Although Essential has a long history of constructive rate regulation, customers and regulators remain sensitive to rate increases that drive Essential's earnings growth. Deterioration of regulatory relations and policies could jeopardize Essential's growth potential.Customer growth and value-accretive water acquisitions have kept earnings growing even while water use has fallen steadily for several decades. Unlike many utilities that have lobbied to decouple rates from usage trends, Essential has maintained usage-based rates to avoid potential pushback from regulators. Customer growth, tax benefits, and constructive rate regulation have more than offset unfavorable usage trends.Essential's ability to make annual rate adjustments in states it serves offsets some of the regulatory ratemaking uncertainty. These surcharges effectively eliminate regulatory lag and improve cash flow to support capital investment and dividends.Essential's large capital investment plan will require good execution to

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keep projects on time and on budget. Delays or cost overruns could reduce shareholder returns.Essential also faces environmental, social, and governance risk, given its water and natural gas distribution businesses. At the water business, Essential must meet strict quality measures. It faces the risk of supplying contaminated drinking water for its customers if it has an operational failure, although we think this risk is low. Essential has invested in monitoring technology that allows it to supply water that is far cleaner than government requirements and reduces per- and polyfluoroalkyl substances, or PFAS.At the natural gas business, there is a long-term risk that policymakers will move retail customers away from gas heating, but we think that's unlikely in the near future, given the technical and economic hurdles in the colder climate where Essential operates.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
CHRISTOPHER H. FRANKLIN	Chief Executive Officer	175,702	27 Feb 2021	—
ROBERT A. RUBIN	Chief Accounting Officer	74,025	27 May 2021	—
MR. CHRISTOPHER P. LUNING	Sr. VP, General Counsel & Sec	49,911	16 Mar 2021	—
MR. DANIEL J. SCHULLER	Executive Vice President	40,634	16 Mar 2021	—
MS. ELLEN T. RUFF	Director,Director	32,198	31 Mar 2021	—
MR. RICHARD S. FOX	Chief Operating Officer	29,566	16 Mar 2021	—
MR. MATTHEW R. RHODES	EVP, Strategy & Corp Dev	23,069	16 Mar 2021	—
MR. DANIEL J. HILFERTY	Director,Director	20,678	31 Mar 2021	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Liberty One CAPSTONE	21.83	2.49	53,581	31 May 2021
Vanguard Total Stock Market Index Fund	2.80	0.03	-4	31 May 2021
Vanguard US Total Market Shares ETF	2.80	0.03	-4	31 May 2021
iShares Core S&P Mid-Cap ETF	2.48	0.45	1	31 May 2021
Vanguard Small Cap Index	2.45	0.21	17	31 May 2021
Concentrated Holders				
Ecofin Global Water Composite	0.01	8.39	4	31 May 2021
AAM UBS Lgr Tm Inv Ser Envir Trd 19-2	0.00	5.12	—	31 May 2021
Lyxor World Water (DR) ETF	0.48	4.73	—	31 May 2021
Pramerica Sicav Clean Water	0.11	4.59	25	31 May 2021
Invesco S&P Global Water ETF	0.36	4.54	4	31 May 2021

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Royal Bank of Canada	2.82	0.09	4,992	31 May 2021
NORGES BANK	1.77	0.05	4,357	31 May 2021
NORGES BANK	1.77	0.05	4,357	31 May 2021
BlackRock Inc	9.55	0.04	935	31 May 2021
Mariner Value Strategies, LLC	1.17	2.41	865	31 May 2021
Top 5 Sellers				
Pictet Asset Management SA (Junked)	—	—	-7,080	31 May 2021
Washington Crossing Advisors, LLC	—	—	-1,685	31 May 2021
Invesco Capital Management LLC	1.29	20.66	-1,427	31 May 2021
BMO Capital Markets Corp.	0.51	0.18	-1,120	31 May 2021
Bank of Montreal	0.56	0.04	-1,103	31 May 2021

Capital Allocation 11 Jun 2021

We give Essential Utilities a Standard capital allocation rating, balancing the company's long history of shareholder-friendly capital allocation in the water business with what we think was an ill-advised move into the gas business.

Essential has an impressive record of paying a dividend every year since 1945 and raising it 30 times in the last 29 years. While returning this cash to shareholders, Essential still found ways to invest in organic growth and acquisitions.

We think Essential overpaid for Peoples Gas. The equity dilution from the $4.3 billion cash price will be difficult to overcome even if everything goes perfectly. The $2.3 billion of goodwill on its balance sheet following the acquisition will remain a drag on returns. Goodwill was nearly equal to the book value of the assets.

Essential also gave up its premium market valuation with the Peoples acquisition. As one of the few pure-play water utilities, Essential was a staple in portfolios focused on environmental, social, and governance issues, especially water. Adding fossil-fuel exposure with the gas business could turn off some ESG investors. We think this would be an overreaction based on natural gas' low-carbon profile, but that's not likely to persuade strict environmentally focused investors to continue holding Essential.

CEO and chairman Chris Franklin has been in his role since 2015 and with the company for 28 years. CFO Dan Schuller joined the company in 2015.

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Analyst Notes

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We consider the stock 23% overvalued based on the $48 stock price as of June 11. The stock trades at 28 times our 2021 earnings estimate, a 30% premium to the current median U.S. utilities P/E. Although we think Essential deserves a premium valuation relative to electric and gas utilities because of its higher returns on capital and growth potential in the water business, we think investors should wait for a pullback. Its closest peer, American Water Works, trades at a 30% premium to our fair value estimate and 38 P/E.

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The $4.3 billion Peoples Gas acquisition doesn't change Essential's core regulated utility business model, but we think it was a setback for investors. Essential paid more than double book value for the business, which has good near-term growth potential but long-term uncertainty as the U.S. moves away from fossil fuels. We think that capital would have been better spent growing its water businesses.

Our five-year, 8% annual earnings growth outlook tops most other U.S. utilities' outlooks. We think the water business has long, attractive runway of growth mostly through acquisitions of municipal utilities. Fair market value laws in some states allow Essential to mark up book value on its water acquisitions, eliminating the risk of overpaying.

We expect Essential to continue its impressive dividend growth track record. The company has paid a dividend every year since 1945 and has raised the dividend by 5% or more every year for the last 25 years. We consider management's 65% payout target more attractive than its peers.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2018	2019	2020	Forecast 2021	Forecast 2022	5-Year Proj. CAGR
Revenue	21.8	3.5	6.2	64.4	23.0	9.0	11.2
EBIT	9.2	-3.2	5.3	27.8	33.7	20.8	20.4
EBITDA	13.7	-0.2	5.7	39.3	25.9	17.4	16.9
Net Income	18.8	-19.9	65.3	26.8	8.1	7.9	9.5
Diluted EPS	5.5	-20.0	36.6	7.5	7.0	6.1	8.6
Earnings Before Interest, after Tax	13.2	20.1	-20.8	52.6	48.4	-1.0	14.1
Free Cash Flow	—	-232.5	-345.3	97.3	266.0	-97.5	—

Profitability	3-Year Hist. Avg	2018	2019	2020	2021	2022	5-Year Proj. Avg
Operating Margin %	35.5	38.6	38.2	29.7	32.3	35.8	38.9
EBITDA Margin %	53.1	56.1	55.8	47.3	48.4	52.1	55.3
Net Margin %	28.7	22.9	35.7	27.5	24.2	23.9	24.3
Free Cash Flow Margin %	-4.8	3.5	-8.2	-9.8	-29.2	-0.7	-0.8
ROIC %	6.3	9.8	5.0	4.2	5.1	4.9	5.4
Adjusted ROIC %	6.6	9.9	5.1	4.8	6.3	5.9	6.4
Return on Assets %	3.6	5.5	2.8	2.5	3.0	3.0	3.2
Return on Equity %	11.1	19.1	7.6	6.7	8.8	8.8	9.3

Leverage	3-Year Hist. Avg	2018	2019	2020	2021	2022	5-Year Proj. Avg
Debt/Capital	0.52	0.56	0.44	0.55	0.56	0.56	0.56
Total Debt/EBITDA	6.61	5.45	6.19	8.20	7.54	6.92	6.27
EBITDA/Interest Expense	4.13	4.74	3.96	3.67	4.43	4.65	5.02

Valuation Summary and Forecasts

	2019	2020	2021(E)	2022(E)
Price/Fair Value	—	—	—	—
Price/Earnings	31.9	29.9	28.9	27.3
EV/EBITDA	23.0	24.7	20.4	17.4
EV/EBIT	33.6	39.3	30.5	25.3
Free Cash Flow Yield %	-2.0	-2.8	-6.2	-2.2
Dividend Yield %	—	—	2.1	2.3

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	6.0
Long-Run Tax Rate %	27.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	55.6
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-26	-0.2	-0.10
Present Value Stage II	2,970	21.1	11.38
Present Value Stage III	11,125	79.1	42.62
Total Firm Value	**14,069**	**100.0**	**53.90**
Cash and Equivalents	5	—	0.02
Debt	-5,670	—	-21.72
Preferred Stock	—	—	—
Other Adjustments	1,548	—	5.93
Equity Value	**9,952**	**—**	**38.12**
Projected Diluted Shares	261		
Fair Value per Share (USD)	**39.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2018	2019	2020	*2021*	*2022*
Revenue	**838**	**890**	**1,463**	***1,800***	***1,962***
Cost of Goods Sold	—	—	166	*300*	*303*
Gross Profit	**838**	**890**	**1,297**	***1,500***	***1,659***
Selling, General & Administrative Expenses	308	333	529	*550*	*555*
Other Operating Expense (Income)	60	60	77	*79*	*81*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	147	156	257	*290*	*320*
Operating Income (ex charges)	**323**	**340**	**435**	***581***	***702***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**323**	**340**	**435**	***581***	***702***
Interest Expense	99	125	188	*197*	*220*
Interest Income	-46	-3	19	*14*	*10*
Pre-Tax Income	**178**	**212**	**265**	***398***	***493***
Income Tax Expense	-14	-13	-20	*-36*	*23*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**192**	**225**	**285**	***435***	***469***
Weighted Average Diluted Shares Outstanding	178	216	255	*257*	*262*
Diluted Earnings Per Share	**1.08**	**1.04**	**1.12**	***1.69***	***1.79***
Adjusted Net Income	192	317	402	*435*	*469*
Diluted Earnings Per Share (Adjusted)	**1.08**	**1.47**	**1.58**	***1.69***	***1.79***
Dividends Per Common Share	—	—	—	*1.04*	*1.11*
EBITDA	**470**	**497**	**692**	***871***	***1,022***
Adjusted EBITDA	**470**	**497**	**692**	***871***	***1,022***

Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
48.86 USD	39.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2018	2019	2020	*Forecast* 2021	*Forecast* 2022
Cash and Equivalents	4	1,869	5	*277*	*339*
Investments	—	—	—	—	—
Accounts Receivable	66	67	155	*138*	*145*
Inventory	16	18	58	*38*	*38*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	62	61	162	*160*	*160*
Current Assets	**147**	**2,015**	**380**	***613***	***682***
Net Property Plant, and Equipment	5,930	6,346	9,513	*10,673*	*11,448*
Goodwill	53	64	2,325	*2,325*	*2,325*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	788	876	1,363	*1,350*	*1,300*
Long-Term Non-Operating Assets	46	62	125	*125*	*125*
Total Assets	**6,964**	**9,362**	**13,705**	***15,086***	***15,880***
Accounts Payable	77	75	177	*25*	*26*
Short-Term Debt	160	131	163	*163*	*163*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	162	118	264	*270*	*270*
Current Liabilities	**399**	**323**	**604**	***458***	***458***
Long-Term Debt	2,398	2,943	5,508	*6,408*	*6,908*
Deferred Tax Liabilities (Long-Term)	845	936	1,258	*1,350*	*1,400*
Other Long-Term Operating Liabilities	1,122	1,069	1,347	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	191	210	305	*305*	*305*
Total Liabilities	**4,955**	**5,481**	**9,021**	***9,870***	***10,421***
Preferred Stock	—	—	—	—	—
Common Stock	91	112	124	*124*	*124*
Additional Paid-in Capital	820	2,637	3,379	*3,729*	*3,779*
Retained Earnings (Deficit)	1,174	1,210	1,262	*1,444*	*1,637*
(Treasury Stock)	-76	-78	-81	*-81*	*-81*
Other Equity	—	—	—	—	—
Shareholder's Equity	**2,009**	**3,881**	**4,684**	***5,216***	***5,459***
Minority Interest	—	—	—	—	—
Total Equity	**2,009**	**3,881**	**4,684**	***5,216***	***5,459***

Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
48.86 USD	39.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2018	2019	2020	Forecast 2021	Forecast 2022
Net Income	192	225	285	*435*	*469*
Depreciation	147	156	257	*290*	*320*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-15	-10	-18	*92*	*50*
Other Non-Cash Adjustments	72	-30	40	—	—
(Increase) Decrease in Accounts Receivable	-18	-4	-35	*17*	*-7*
(Increase) Decrease in Inventory	—	—	—	*21*	*0*
Change in Other Short-Term Assets	—	—	—	*2*	—
Increase (Decrease) in Accounts Payable	1	5	-2	*-152*	*0*
Change in Other Short-Term Liabilities	-10	-3	-19	*6*	—
Cash From Operations	**369**	**339**	**508**	***710***	***832***
(Capital Expenditures)	-496	-550	-836	*-1,451*	*-1,095*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	-145	-57	-3,500	—	—
Other Investing Cash Flows	1	2	2	*16*	*50*
Cash From Investing	**-640**	**-605**	**-4,334**	***-1,435***	***-1,045***
Common Stock Issuance (or Repurchase)	4	1,946	743	*350*	*50*
Common Stock (Dividends)	-151	-189	-233	*-253*	*-276*
Short-Term Debt Issuance (or Retirement)	12	10	-129	—	—
Long-Term Debt Issuance (or Retirement)	418	361	1,546	*900*	*500*
Other Financing Cash Flows	-12	3	34	—	—
Cash From Financing	**271**	**2,131**	**1,962**	***997***	***274***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**-1**	**1,865**	**-1,864**	***273***	***62***

Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	1.31	39.3	37.6	34.1	20.5	19.3	17.9	NM	462.3	NM	—	—	—	7.4	7.1	6.7
Eversource Energy ES USA	1.22	23.8	21.6	20.9	15.3	14.0	12.9	—	NM	NM	—	—	—	3.3	3.1	3.0
NiSource Inc NI USA	0.91	17.4	19.4	18.7	12.1	11.4	10.5	NM	NM	NM	—	—	—	1.9	2.0	1.9
Average		26.8	26.2	24.6	16.0	14.9	13.8	—	462.3	—	—	—	—	4.2	4.1	3.9
Essential Utilities Inc WTRG US	**1.25**	**29.9**	**28.9**	**27.3**	**24.7**	**20.4**	**17.4**	**NM**	**NM**	**NM**	**—**	**—**	**—**	**7.9**	**6.7**	**6.1**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	24,766 USD	6.0	6.5	6.8	6.5	7.0	7.3	11.3	11.7	12.1	3.0	3.1	3.3	1.4	1.5	1.6
Eversource Energy ES USA	46,100 USD	4.8	4.9	4.9	5.5	5.5	5.4	9.0	9.2	9.1	2.8	2.8	2.8	2.6	2.9	3.1
NiSource Inc NI USA	22,041 USD	3.9	5.8	6.3	4.2	6.3	6.9	-1.5	10.0	9.4	-0.3	2.4	2.5	3.7	3.4	3.5
Average		4.9	5.7	6.0	5.4	6.3	6.5	6.3	10.3	10.2	1.8	2.8	2.9	2.6	2.6	2.7
Essential Utilities Inc WTRG US	**13,705** USD	**4.2**	**5.1**	**4.9**	**4.8**	**6.3**	**5.9**	**6.7**	**8.8**	**8.8**	**2.5**	**3.0**	**3.0**	**—**	**2.1**	**2.3**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	3,777 USD	4.6	8.7	6.3	3.7	15.4	7.9	8.1	9.2	10.2	24.3	-271.2	-96.0	10.0	9.7	10.0
Eversource Energy ES USA	8,904 USD	4.4	3.1	4.7	25.0	15.8	5.8	5.5	5.2	3.5	—	—	NM	6.1	6.2	5.8
NiSource Inc NI USA	4,682 USD	-10.1	11.2	5.5	-26.3	16.8	8.3	0.4	1.3	3.5	-728.1	-67.2	-435.9	5.0	4.8	4.5
Average		-0.4	7.7	5.5	0.8	16.0	7.3	4.7	5.2	5.7	-351.9	-169.2	-266.0	7.0	6.9	6.8
Essential Utilities Inc WTRG US	**1,463** USD	**64.4**	**23.0**	**9.0**	**27.8**	**33.7**	**20.8**	**7.5**	**7.0**	**6.1**	**97.3**	**266.0**	**-97.5**	**7.0**	**7.2**	**6.7**

Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	709 USD	100.0	*100.0*	*100.0*	49.0	*50.3*	*50.9*	33.0	*35.1*	*35.6*	18.8	*18.9*	*19.7*	-10.5	*1.5*	*0.5*
Eversource Energy ES USA	1,237 USD	66.5	*66.5*	*67.0*	33.4	*36.5*	*37.8*	22.3	*25.1*	*25.3*	13.9	*14.4*	*14.3*	—	*-6.3*	*-10.0*
NiSource Inc NI USA	508 USD	76.3	*70.0*	*70.0*	36.0	*35.0*	*36.1*	20.5	*21.6*	*22.1*	10.8	*10.7*	*11.2*	-14.0	*-10.9*	*-14.4*
Average		80.9	*78.8*	*79.0*	39.5	*40.6*	*41.6*	25.3	*27.3*	*27.7*	14.5	*14.7*	*15.1*	-12.3	*-5.2*	*-8.0*
Essential Utilities Inc WTRG US	**402** USD	**88.7**	***83.3***	***84.6***	**47.3**	***48.4***	***52.1***	**29.7**	***32.3***	***35.8***	**27.5**	***24.2***	***23.9***	**-22.4**	***-41.1***	***-13.4***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	10,940 USD	169.4	*154.3*	*147.8*	62.9	*60.7*	*59.6*	4.7	*4.8*	*5.2*	5.9	*5.1*	*5.0*	3.8	*3.7*	*3.6*
Eversource Energy ES USA	17,428 USD	122.6	*125.8*	*127.6*	55.1	*55.7*	*56.1*	5.5	*5.3*	*5.2*	5.9	*5.6*	*5.5*	3.2	*3.2*	*3.2*
NiSource Inc NI USA	9,746 USD	169.4	*128.3*	*133.1*	62.9	*56.2*	*57.1*	4.6	*4.9*	*5.1*	5.8	*5.1*	*5.2*	3.8	*3.3*	*3.4*
Average		153.8	*136.1*	*136.2*	60.3	*57.5*	*57.6*	4.9	*5.0*	*5.2*	5.9	*5.3*	*5.2*	3.6	*3.4*	*3.4*
Essential Utilities Inc WTRG US	**5,670** USD	**121.1**	***126.0***	***129.5***	**54.8**	***55.8***	***56.4***	**3.7**	***4.4***	***4.7***	**8.2**	***7.5***	***6.9***	**2.9**	***2.9***	***2.9***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)	2020	2021(E)	2022(E)
American Water Works Co Inc AWK	29,100 USD	3.01	*0.20*	*0.19*	0.66	*0.58*	*0.59*	0.65	*0.58*	*0.59*	0.34	*0.04*	*0.03*	55.0	*55.3*	*55.2*
Eversource Energy ES USA	28,442 USD	0.31	*0.34*	*0.38*	0.64	*0.56*	*0.54*	0.58	*0.50*	*0.49*	0.05	*0.05*	*0.06*	64.0	*63.0*	*64.4*
NiSource Inc NI USA	10,202 USD	0.33	*0.82*	*0.75*	0.73	*0.88*	*0.87*	0.55	*0.68*	*0.67*	0.24	*0.68*	*0.67*	-444.0	*65.8*	*66.4*
Average		1.22	*0.45*	*0.44*	0.68	*0.67*	*0.67*	0.59	*0.59*	*0.58*	0.21	*0.26*	*0.25*	-108.3	*61.4*	*62.0*
Essential Utilities Inc WTRG US	**12,002** USD	**0.02**	***1.08***	***1.30***	**0.63**	***1.34***	***1.49***	**0.53**	***1.26***	***1.41***	**0.03**	***1.71***	***2.09***	**—**	***61.5***	***61.9***

Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

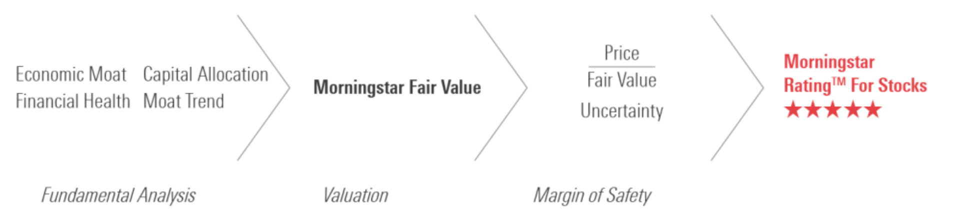
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

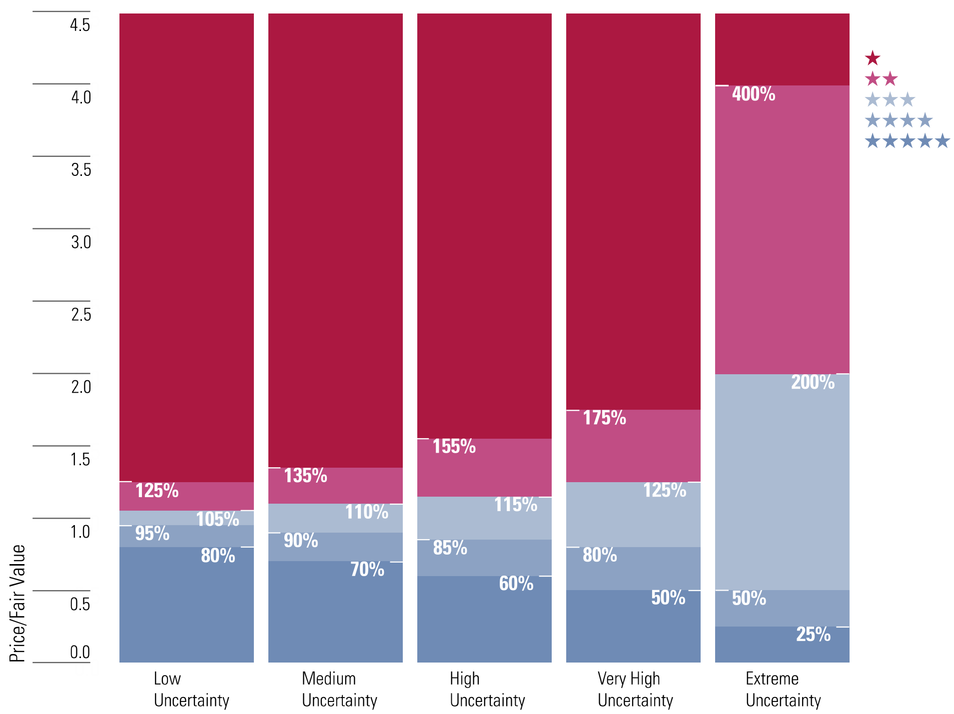
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environmental, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
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Essential Utilities Inc WTRG (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
48.86 USD	39.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
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